APPENDIX A.

The amount of remission of Subsidy allowable under the scheme now formulated is made to depend upon gross revenues, and this method of calculating it is likely to operate unequally in its incidence on the States coming under the arrangement, as all of them cannot be expected to have either the same sources of revenue or to have reached the same standard of administration of even the sources of revenue common to them. States which have not expanded their resources would, under the scheme, get greater relief than those which, like Mysore, have increased the rates of their administration. It is the increased level of expenditure on Service Departments that necessitates the development of revenue resources and gross revenues, subject as they are, in such circumstances, to commitments previously undrtaken cannot form the best basis for determining the extent of relief that may properly be given.

2. Apart from this the fixing of military expenditure on the basis of general revenues appears to be unsound in principle. Military expenditure should not be increased merely on the basis of increasing gross revenues, but should have some relationship to the actual needs and requirements of the time. No indication has been given as to how the cost of defence that may properly be borne by an Indian State has been fixed at 15 per cent of its gross revenues. In the case of not a few of the Indian States the Subsidy together with the cost of troops maintained is less than 15 per cent of their gross revenues. Such a State has no claim for remission of Subsidy, but it is none the worse for it as it gets the benefit of full protection with a reduced standard of military expenditure besides keeping down its level of taxation. On the other hand, the position of a State like Mysore which spends on these two objects more than 15 per cent of its gross revenues is quite different as it has to bear relatively larger military charges. Its claim to rebate will gradually disappear with the increase of its gross revenues and the results of its efforts to improve its revenues will be that it will be called upon to bear a heavier military burden. In the case of a State like Mysore which is already liable to pay a high tribute the amount of which was determined by historical accidents, the present scheme offers no prospect of correcting the unfair or unequal effects of such accidents.

APPENDIX B.

By Article 2 of the Subsidiary Treaty of 1799 the East India Company agreed to maintain and the Maharaja of Mysore agreed to receive a military force for the defence and security of His Highness' dominions in consideration of which protection, His Highness the Maharaja agreed to pay the East India Company an annual sum of 7 lakhs of star pagodas, equivalent to Rs. 24½ lakhs in modern currency. It was further stipulated (Article 3) that in the event of hostilities having to be undertaken for the defence of the territories of either of the contracting parties. the Maharaja would contribute towards the increased military expenditure thereby involved, such a sum as might be considered just and reasonable by the Governor General in Council. Thus the State of Mysore started with a recurring obligation to pay Rs. 24½ lakhs annually to the British Government and an occasional and contingent liability to participate in the expenses of defensive war, should any be undertaken.

A few years later, it was deemed expedient by the contracting parties that the provisions of the third Article of the Treaty "should be rendered more specific, and that instead of the said indefinite contributions in war, the Mysore State should maintain a certain body of

Horse *in peace and war*", and accordingly the Treaty of 29th January 1807 was concluded providing that Mysore should maintain at all times a body of 4,000 effective Horse. This army (except such portion as should be necessary for the internal protection of the country) was to be at all times ready to accompany and serve with the British army. On the eve of Rendition when the provisions of the Treaty of 1807 were revised, it was calculated that the standing army of 3,000 horse (taking 1,000 horse as required for internal protection) which Mysore was required to maintain for external service would cost about Rs. 10½ lakhs per annum and it was decided that this sum should be added on to the annual subsidy of Rs. 24½ lakhs, making, in all 35 lakhs of rupees. This subsidy, the Government of India then wrote, would discharge the State of its existing obligation to maintain a contingent for service outside its territory. Although the subsidy was thus enhanced from Rs. 24½ lakhs to Rs. 35 lakhs, the enhancement was, in view of the cripple financial condition of the State, postponed for a period of five years, afterwards extended to 15 years, from the date of the Rendition.

In the letter from His Excellency the Rt. Hon'ble the Governor General of India in Council to the Rt. Hon'ble Viscount Cranbrook, Her Majesty's Secretary of State for India, dated 3rd March 1880, it was stated that "although we have an incontestable right to take full account of the fact that the State's revenues have nearly doubled since the administration passed into our hands, we do not propose to follow these calculations in dealing with the question of the future contribution to be made by Mysore. The augmented revenues of the State are chiefly due to improved administration and it is to be remembered that with the reform of the administration, its cost has increased, and that the Government of India have set up in Mysore and are stipulating for the maintenance of a Government completely organised in all its branches, at a high and therefore expensive standard of efficiency".

In the same letter the Rt. Hon'ble the Governor General of India said "it is however our desire to encourage in every way the employment of the resources of the country in the improvement of the conditions of the people by the maintenance of good Government and by the development of productive public works."

The above quotations show that the moral and material progress of the State, the development of productive works and the improvement of the administration, have always been specially emphasised by by the British Government and there has been a clear indication of a desire on the part of the British Government to see that no undue or heavy burden on the finances of Mysore is imposed which would seriously prejudice these important ideals of administration.

In the confidential Memorandum given by Sir J. D. Gordon, Resident in Mysore, to His Highness the Maharaja, dated 20th July 1881, certain statements of policy were enunciated. He said, "Your Highness may rest assured that the British Government has not any desire to require the Mysore State to pay a larger subsidy than it is well able to pay. The Government of India is wont to give every consideration to Native States in such matters and Your Highness will see in the postponement of the proposed increase and in the permission to the Government of India to reconsider the subject, if necessary, at the expiration of the postponed period, the best practical proofs of a desire on the part of the British Government to deal fairly, considerately and tenderly with the Mysore State in the matter."

Sir J. G. Gordon further emphasised the fact that "to maintain a larger force than is required is a waste of public money that might, for the good of the people, be otherwise profitably employed."

Later in 1885, Mr. J. B. Lyall, Resident in Mysore, wrote to Sir K. Seshadri Iyer to the effect that he had "strong hopes that Lord Dufferin who is generously disposed towards Native States, will be willing to reopen" the question of the enhancement of the Subsidy. Unfortunately, however, the representations of Sir Sheshadri Iyer made in 1895 were rejected and again in 1897, and the Subsidy at the enhanced rate of Rs. 35 lakhs is being levied from the year 1896.